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Currents of World Recovery

BY WINTHROP W. CASE

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Currents of World Recovery

BY WINTHROP W. CASE

Associate Editor of *The Annalist*

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THE recovery from the world depression which set in during the summer of 1932 has on the whole continued up to the present time. In the more developed countries, industrial activity—one of the best single measures of economic well-being—had by 1936 recovered generally more than half of the loss it had suffered during the depression, and perhaps half of the increase in unemployment had been wiped out. In the less advanced agricultural and raw material countries, the gains have been equally striking. While it is true that the prices of the farm and mineral products which are the lifeblood of these countries have recovered only moderately in terms of gold, the returns to the producers in terms of their own depreciated currencies have greatly increased. At the same time, much progress has been made in reducing the excessive stocks of their agricultural products and raw materials, which for so long had overburdened world markets and forced prices down to fire-sale levels.

Recovery, however, has remained largely confined to individual countries. International trade, confronted with the steadily rising barriers of import and exchange restrictions of all kinds, was still falling even in 1934, and although a measure of improvement occurred in 1935, the increase was less than 1 per cent of the loss which had previously taken place. It is true that the shrinkage of world trade to little more than a third of its pre-depression value reflects primarily the catastrophic drop in prices since 1929, but even when measured in terms of physical volume, less than a quarter of the loss undergone during the depression had been regained by 1935.

The disparity between domestic and international recovery is not the only danger spot in a brightening economic picture. The monetary outlook continues obscure, the pressure on other countries of the unprecedented gold drain to the United States remains unrelieved, and the threat of a break-up of the gold bloc raises doubts as to the permanence of present currency parities. The international political tension and the growing fear of war constitute another obstacle to the return of confidence as to the future which is essential to any thoroughgoing economic recovery, while rearmament is already acting as an unhealthy stimulant to industry. Even more significant for the longer term is the all-pervading growth of economic nationalism, marked by the increasing insulation of national markets. In fact, a considerable part of the increase in industrial production is due to the artificial stimulation of domestic industry by economic nationalism which has merely replaced more efficient foreign trade, to the increase of armament expenditures and to the diversion into less productive domestic channels of funds which before the depression found investment in the international field. For these various reasons, some observers regard the present world recovery as precarious. In any event, it is possible to have marked increases in industrial production along with a falling standard of living.

INDUSTRIAL RECOVERY

Industrial recovery has progressed throughout the world during the past two years. In thirteen out of the twenty-three countries for which there are industrial production indices, the pre-depression level of activity had been more than regained by 1935. Although the improvement in per capita terms was undoubtedly somewhat less, thanks to the normal growth of population during the period, virtually all countries made considerable progress. Such monthly indices as are available indicate that the trend is still upward. The Netherlands and Spain are the only definite exceptions, although if there were a Swiss index, Switzerland would also be included among the laggards.

During the first year and a half of recovery—that is, during the second half of 1932 and all of 1933—practically every country participated in the

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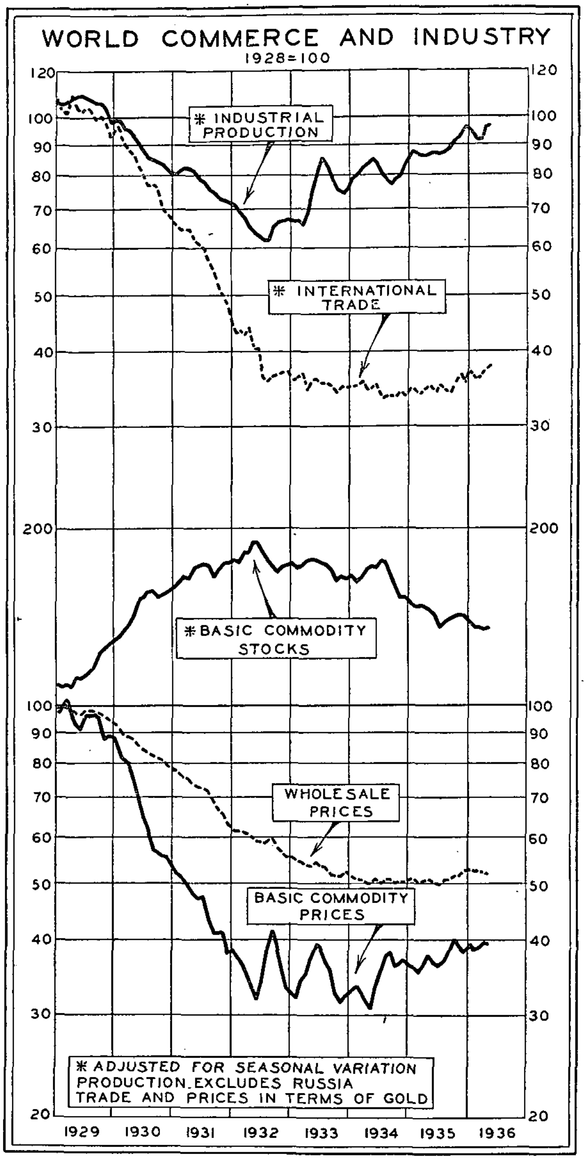
upturn. Subsequently, however, as is apparent from the table, improvement was by no means even. The pressure exerted on prices in other countries by the depreciation of the dollar in 1933, together with the failure of the London monetary conference the same year to make any headway with the problem of stabilization, broke up the unity of the recovery.[1]

One group, comprising those countries which have been experiencing rapid industrial development, steadily continued its expansion. The U.S.S.R., which has shown by far the greatest increase, represents, of course, a special case. Since not only its internal development but its economic relations with the rest of the world are completely and deliberately controlled, its leadership in industrial expansion is at present of only limited economic importance to more orthodox countries, whatever its ultimate implications.

Japan, which of all capitalist countries has made by far the greatest gain, is also to a considerable extent a special instance. The unique feature of its recent industrial development has been its association with, and dependence upon, the aggressive expansion of its exports. This has virtually been forced on it by the pressure of the rapidly increasing population—in turn, partly the result of industrialization—which, according to Professor Uyeda, is adding 200 to 250 thousand a year to the number of people for whom work must be found.[2] The people have shown little disposition to migrate to regions still open to them in sufficient numbers to relieve the pressure, and intensive industrial development has accordingly proved the only alternative.

Japan's invasion of foreign markets during recent years has been facilitated by its relatively low scale of wages,[4] a currency depreciated to little more than a third of its former gold value,[5] and the so-called rationalization and generally more effective organization of its export industries.[6] The future of these markets, however, is far from assured. Rising tariffs and similar restrictions are already tending to check Japanese exports,[7a] especially in the textile field.[8] On the other hand, a considerable portion of Japan's recent export expansion represents the tapping by its low-priced merchandise of new low-income markets in Asia and Africa, where the customers formerly could not afford to buy imported goods at all,[9] and these mar-



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1. League of Nations, *World Economic Survey, 1934-35* (Geneva, 1935), p. 1.

2. Bank of Nova Scotia, *Monthly Review*, August 1935, p. 3. Cf. also U. S. Department of Agriculture, "Agricultural Policies in Japan: Silk," *Foreign Crops and Markets*, March 2, 1936.

4. For a discussion of the extent to which low wages are offset by lower efficiency and higher turn-over, and by food and other allowances, etc., cf. G. E. Hubbard, *Eastern Industrialization and Its Effect on the West* (New York, Oxford University Press, 1935), pp. 111 *et seq.* Cf. also T. A. Bisson, "Japan's Trade Boom: Does It Menace the United States?" *Foreign Policy Reports*, March 15, 1936.

5. League of Nations, *Monthly Bulletin of Statistics*, June 1936, p. 271.

6. League of Nations, *World Economic Survey, 1934-35*, cited, p. 116, and Hubbard, *Eastern Industrialization*, cited, pp. 74 *et seq.*

7. Industrial production and basic commodity prices cover a somewhat more restricted field than the series in the table on p. 136, but show an essentially similar trend.

7a. Mitsubishi Economic Research Bureau, *Monthly Circular* (Tokyo), June 1936, pp. 1, 6.

8. *The Oriental Economist* (Tokyo), April 1936, p. 265.

9. Hubbard, *Eastern Industrialization*, cited, p. 159.

kets are unlikely to be completely closed to it by additional restrictions. Nevertheless, further expansion of Japanese exports promises to be increasingly difficult. It is probable that the slowing down in the rate of increase of Japan's industrial production during the past year is a direct consequence of the growing barriers to its export trade.

The other chief factor in Japanese recovery has been the stimulation of the heavy industries by government military expenditures. In view of the proposal for an increase of 600 million yen in annual military expenditures over the next five years,[10] part at least of which will presumably materialize, there is little likelihood that this stimulus will be withdrawn in the near future. The fact that already about 30 per cent of government expenditures are not covered by revenues, but have to be met by "red ink" bonds,[11] indicates a decidedly unsatisfactory fiscal situation. Until the nation's finances are put on a sounder basis, the danger of uncontrolled inflation will remain, with its threat of a general financial collapse.[12]

Next after the U.S.S.R. and Japan in the extent of their industrial expansion are the so-called "new" industrial countries. These are primarily agricultural and raw material countries which before the depression were already finding markets for their products increasingly restricted by the excessive agricultural protectionism of the industrial nations of Europe. The ensuing decline in the prices for their products, aggravated by overproduction and by further curtailment of demand because of the depression, turned them increasingly toward a policy of industrial self-sufficiency. The simpler manufactured products, such as textiles and leather and rubber goods, predominate in most of the non-European countries of this group, although in several the more advanced forms of industry are also being actively fostered by protective tariffs. In the "new" countries of Europe the heavier types of industry, such as production of iron and steel, are somewhat more in evidence. Regardless of the

INDICES OF WORLD ECONOMIC CONDITIONS

1928=100

	1929	*1930*	*1931*	*1932*	*1933*	*1934*	**1935*	*Per Cent of Loss since 1928 Recovered by 1935*	**Latest Month in 1936*	
†Industrial Production	106.3	91.8	79.0	*66.0*	74.7	80.7	89.3	68.5	....	
Unemployment (1929=100.0)	100	164	235	*291*	274	222	193	51.3	....	
International Trade:										
Gold values	101.5	82.2	58.7	39.8	35.8	*34.5*	35.1	0.9	May	‡37.5
Sterling values	101.5	82.2	63.0	55.3	*52.6*	55.8	58.7	12.9	May	‡61.7
Primary Commodities:										
World stocks	114.6	144.9	168.1	*173.2*	167.4	161.0	139.1	46.6	May	‡128.5
Prices:										
Gold values	93.3	71.7	52.4	42.5	39.4	*36.8*	38.6	2.8	May	41.4
Sterling values	93.3	71.7	*56.2*	59.0	57.9	59.5	64.5	18.9	May	68.1
Wholesale Prices:										
Gold values	97.7	85.8	72.0	59.6	53.8	*50.8*	50.9	0.2	May	52.1
Sterling values	97.7	85.8	*77.3*	82.8	79.0	82.2	85.1	34.4	May	85.7

Underscored italic figures indicate worst year of depression.

*Preliminary.

†In 19 countries; U.S.S.R., Rumania, Estonia and Spain excluded.

‡Adjusted for seasonal fluctuations.

Industrial Production is computed from official indices of individual countries, using weights of the Institut für Konjunkturforschung, as published in League of Nations, *World Production and Prices, 1925-1934*, p. 23. Unemployment, *International Labour Review*, April 1936, p. 559. International Trade, League of Nations, *Statistical Yearbook, 1933-34*, p. 195, and *Monthly Bulletin of Statistics*, April 1936, p. 149. Primary Commodity Stocks (8 commodities), computed from Department of Commerce, *Survey of Current Business*, May 1936, p. 20. Primary Commodity Prices (22 commodities), Statistique Générale de la France, *Bulletin*, April-June 1935, p. 427, and *Supplément Mensuel*, May 1936, p. 16. Wholesale Prices (9 countries to June 1934, 8 to October 1935, 7 subsequently), *The Annalist*, January 17, 1936, p. 156, and June 19, 1936, p. 904.

10. *New York Times*, July 1, 1936.

11. Mitsubishi Economic Research Bureau, *Monthly Circular*, July 1936, p. 14.

12. Hubbard, *Eastern Industrialization*, cited, p. 111.

INDICES OF WORLD INDUSTRIAL PRODUCTION

1928=100

	1929	1930	1931	1932	1933	1934	1935	Per Cent of Loss since 1928 Recovered by 1935	‡Latest Month in 1936	
*U.S.S.R.	*125.9*	164.6	203.0	230.1	250.6	296.6	367.0	....	....	
Japan	111.7	*105.8*	108.3	114.2	131.3	142.8	159.1	100.0+	March	165.5
"New" Industrial Countries:										
Chile	123.6	124.8	*96.3*	107.6	118.5	130.0	148.5	100.0+	March	154.6
Greece	*101.8*	105.3	108.9	102.7	111.8	127.5	143.2	....	....	
Denmark	108.3	117.6	108.3	*98.6*	113.7	126.7	131.0	100.0+	May	143.0
*Rumania	107.0	103.6	109.2	*94.7*	109.7	132.5	†128.3	100.0+	....	
Finland	97.6	88.6	*78.0*	81.3	93.5	113.8	122.0	100.0+	March	126.8
Norway	111.4	112.5	*87.2*	103.2	104.5	108.8	117.0	100.0+	May	‡128.4
Hungary	102.6	96.1	89.6	*78.9*	85.8	100.5	113.7	100.0+	Jan.-March	120.4
**Composite*	108.4	109.0	96.3	*95.7*	105.1	117.9	129.4	100.0+	....	
Sweden	105.8	101.9	89.4	*83.7*	86.5	105.8	†113.7	100.0+	....	
United Kingdom	106.0	97.9	88.8	*88.4*	93.5	104.9	112.0	100.0+	Jan.-March	118.0
*Estonia	100.5	99.2	91.3	*78.7*	82.3	96.9	106.9	100.0+	March	‡120.9
Italy	109.2	100.3	84.7	*73.0*	80.5	88.3	†101.2	100.0+	....	
*Spain	112.1	110.5	104.5	99.1	*94.6*	95.9	97.4	51.9	Feb.	98.0
Germany	100.9	88.9	72.8	*58.7*	65.5	83.3	95.3	88.6	May	106.7
Canada	108.1	91.7	76.7	*62.8*	65.2	79.5	87.9	67.5	May	93.9
Austria	102.5	87.4	76.4	*66.4*	68.0	73.9	81.5	44.9	April	87.4
United States	107.2	86.5	73.0	*57.7*	68.5	71.2	81.0	55.1	May	91.7
Czechoslovakia	104.4	93.1	84.2	66.3	*62.6*	69.4	73.0	27.8	April	82.6
Belgium	100.6	84.7	76.4	*63.6*	67.2	66.6	72.8	25.3	April	78.8
Gold Bloc:										
France	109.4	110.2	97.6	75.6	84.3	78.0	*74.0*	0.0	May	81.1
Netherlands	102.5	93.7	81.0	*63.9*	70.9	71.6	68.0	11.4	May	69.9
Poland	99.7	81.8	69.3	*53.7*	55.4	62.8	66.2	27.0	May	**71.1
Composite	107.8	105.9	93.3	*72.4*	80.3	76.0	72.6	0.1	....	
**World Composite:*										
Including U. S.	106.3	91.8	79.0	*66.0*	74.7	80.7	89.3	68.5	....	
Without U. S.	105.5	97.2	85.1	*74.5*	81.0	90.5	97.9	91.8	....	

Underscored italic figures indicate worst year of depression.

*The U.S.S.R., Rumania, Estonia and Spain are excluded from composite indices.

†Rumania, estimated from first 9 months; Sweden, from first 5 months; Italy, from first 8 months.

**Not in gold bloc since April 27, 1936.

‡Adjusted for seasonal variation, except Norway and Estonia; subject to revision.

Cf. League of Nations, *Monthly Bulletin of Statistics*, and official reports from individual countries. Composite indices computed from individual indices, using weights of the Institut für Konjunkturforschung, as published in League of Nations, *World Production and Prices, 1925-1934*, p. 23.

ultimate consequences, the fostering of home industries by these countries is a policy which does not seem likely to be soon reversed. It is consequently entirely probable that the current industrial expansion in these "new" countries, both in Europe and elsewhere, will continue.

At the other end of the scale of industrial recovery is the dwindling group of survivors of the gold bloc, established to maintain the gold standard after the London monetary conference broke up in 1933. The attempt to combat the depression by deflationary measures can scarcely be said to have had much success to date. It is true that France, the most important member of the gold bloc, has been experiencing a small measure of recovery in recent months, but according to the industrial production index, it did not even reach the bottom of the depression until May 1935, although most other countries had been enjoying improving conditions for three years. The subsequent improvement is probably as much as anything attributable to the stimulus of the recovery in countries which have not used orthodox monetary measures, and to some extent to military expenditures. In the Netherlands, industry in the spring of 1936 was still below the 1933 and 1934 averages, although higher than in 1932 and 1935. In Switzerland more or less similar conditions prevail.

Moreover, of the four countries which were either original members of the gold bloc or else closely associated with it, but were subsequently forced to abandon strictly orthodox deflationary measures, at least three have experienced a real measure of recovery. In the fourth, Poland, the imposition on April 27, 1936 of restrictions on the export of gold[13] is too recent for its effects on Polish industry and commerce to be made manifest. Italy ceased to maintain the lira at par after the beginning of 1934, and its industry, which had been declining since the middle of the previous year, began a recovery which lasted until the opening of the Ethiopian campaign. Since then, of course, the situation has been dominated by war requirements, and all statistics which might show the country's present economic condition have been withheld by the government. Czechoslovakia devalued the crown by 16.7 per cent on February 17, 1934, and its industry, apart from a reaction in the latter part of that year, has steadily expanded. Belgium, which devalued its currency 28 per cent at the end of March 1935, has since recovered considerably.

Midway between the countries whose industry has been experiencing a consistent long-term expansion and those which have persisted in orthodox deflationary policies is a somewhat miscellaneous aggregation, of which the United Kingdom and its satellites of the sterling bloc are perhaps the most prominent members. Virtually all these countries[14] have been enjoying a generous measure of recovery, such an exception as Spain being due to special circumstances. Currency depreciation, low money rates and tariffs have been outstanding in their policies.[15] "Pump-priming" expenditures by the government have not, with one or two exceptions, been generally important in the past, except in some cases in the concealed form of military expenditures. Germany and Italy are, to an increasing extent, in a special category. Germany, especially, is verging toward the highly-controlled "closed" type of economy and is dominated by rigid exchange control, large military and other government expenditures, and the consequent abnormal stimulation of the heavy industries.

CAPITAL AND CONSUMERS' GOODS INDUSTRIES

Industrial recovery has been most pronounced in the capital goods industries throughout the world. The demand for consumers' goods is comparatively stable, since people must still eat and dress, and just as the consumers' goods industries suffered less during 1930-1932, so their opportunities for subsequent expansion have been relatively limited. The demand for capital or investment goods, on the other hand, is highly variable: plant expansion, building, and other forms of capital expenditure are easily and naturally deferred when the outlook seems unfavorable. The burden of the depression consequently fell on the capital goods industries, where unemployment has, in fact, been concentrated. In the United States the production of capital goods during the worst year of the depression was only 27.6 per cent of the 1929 average, as against 75.9 for consumption goods; in Germany only 34.4 per cent, as against 76.3 per cent; in Poland 42.4, as against 64.1; in the Netherlands 45.9, as against 93.0; in Finland 67.4, as against 89.9; and in Sweden 68.7, as against 95.2.[16]

The subsequent recovery of the capital goods industries has been proportionately greater, although in many cases these enterprises have still to reach

13. While not necessarily implying currency depreciation, gold export restrictions tend to have that result.

14. It should be noted that for the United Kingdom, the pre-depression years, with which its present recovery is usually compared, were years of protracted subnormal industrial activity and high unemployment.

15. These influences have also been important in the expansion of many of the "new" countries, and currency depreciation has been prominent in Japan.

16. League of Nations, *Monthly Bulletin of Statistics*, June 1936, p. 252.

the levels now attained by the other class. In countries like the United States and the Netherlands, where recovery has been relatively slow, the building and other capital goods industries have lagged conspicuously. On the other hand, countries like the United Kingdom and Germany, which have enjoyed general recovery, have been favored in the one case by a very active building industry and in the other by a large program of government capital expenditures.

UNEMPLOYMENT

Along with the improvement in industry has gone a decline in unemployment. The composite index of world unemployment of the International Labor Office, after rising in 1932 to 291 per cent of the 1929 average, had by 1935 declined to 193, more than half of the increase during the depression having been eliminated.[17] In the United Kingdom unemployment in 1935 averaged only 2,028,000, as against 2,856,000 in 1932; in the United States 12,199,000, as against 13,723,000 in 1933 (according to the American Federation of Labor estimate); in Sweden 81,385, as against 97,316 in 1933; in Hungary 52,058, as against 66,235 in 1932.[18] In Germany there was a spectacular drop to 2,151,000 from 5,575,000 in 1932. The German figures, however, are not exactly comparable, since among other things, the later year excludes the labor camps but does include the Saar since March; a large decrease has in any event taken place.

In the gold bloc, on the contrary, there has been little reduction of unemployment. In France, Switzerland and the Netherlands it is still very near its peak, while in Poland, which only recently has left the group, it is but moderately below its high mark. In Belgium, which devalued in the spring of 1935, unemployment reached its height in 1934, and has since declined steadily. In Czechoslovakia, which devalued early in 1934, the top point was touched in 1933, unemployment declining from 976,000 in that year to 922,000 in 1935.

Recovery in wage scales has been comparatively moderate. This is in part due to the fact that wages were reduced to a relatively small extent in the first place.[19] Costs were cut by discharge, by part-time operation, by the more efficient use of labor, rather than by the drastic slashing of pay scales. "Real" wages received by those fortunate enough to retain jobs rose, indeed, taking into account the fall in the cost of living. Real wages for the countries for which the International Labor Office published data are now generally higher than in 1929.[20] Whether this has really been advantageous is another matter. Some economists believe that the maintenance of high wage rates during depressions tends to foster unemployment by impeding that readjustment of costs which is a prerequisite for recovery.[21] Of course, to the extent that increased wage scales reflect greater efficiency of labor, there is no question is to their economic justification.

NON-INDUSTRIAL COUNTRIES

While the improvement in industrial countries is readily seen in the trend of the industrial production indices and the unemployment figures, comprehensive indices for the agricultural and raw material producing countries are unfortunately lacking. Probably the best single measure is the prices they receive for the commodities they produce. Prices of 22 primary commodities[26] had by 1935 recovered 18.9 per cent of their loss during the depression, measured in terms of the pound sterling, the index standing at 64.5 per cent of the 1928 average in 1935, as against 56.2 in 1931. It is true that in terms of gold, there has been a recovery of only 2.8 per cent (the index standing at only 38.6 last year). Practically all the agricultural and raw material countries,[27] however, have allowed their currencies to depreciate at least as much as the pound. Since their prosperity is largely measured by the prices they receive for their products in terms of their own depreciated currencies, the index in sterling understates rather than exaggerates their improvement.

A further indication of improvement in agricultural countries is found in the decline in the excessive commodity stocks which were already overburdening them when the depression began, and which indeed contributed to the drastic decline in prices that so aggravated it. Only partial data, unfortunately, are available. Stocks of eight important commodities[28] had by 1935 lost on an av-

17. International Labor Office, *International Labour Review*, April 1936, p. 559.

18. Unemployment figures from League of Nations, *Monthly Bulletin of Statistics*, June 1936, pp. 287, 288.

19. League of Nations, *World Economic Survey, 1934-35*, cited, p. 134.

20. International Labor Office, *International Labour Review*, cited, pp. 569-81.

21. Willford I. King, "Unemployment and Wage Rates," *The Annalist*, May 3, 1935, p. 664.

26. Cf. table on p. 136. This index includes all the important agricultural commodities and raw materials the prices of which are determined in the world markets; such commodities as iron and steel, prices for which are generally set by producers' agreements, being excluded.

27. The important sugar, tin and rubber producing areas of the Dutch East Indies are the chief exceptions.

28. Cf. table on p. 136. This index includes coffee, cotton, rubber, silk, sugar, tea, tin and wheat.

erage nearly half the increase which had taken place during the earlier phases of the depression when demand fell off and production had continued high. It is true that when the depression began, stocks were already high,[29] and that the decrease since 1932 appears less striking when compared with a normal level. Nevertheless, the decline is significant, and the steady improvement in demand for many of these commodities, together with reduced production of others—the result in some cases of artificial measures of control—suggest the probability of a further decrease.

LAGGING OF INTERNATIONAL TRADE

While industry and, to a somewhat lesser extent, agriculture have been enjoying better conditions, the improvement has remained almost entirely domestic. Industry has improved greatly, but international trade remains close to the low point of the depression. World trade in 1935 averaged only 35.1 per cent of the 1928 average, or but slightly above the depression low figure of 34.5 in 1934.[32] Measured in sterling, in which a large part of international trade is now transacted, it has recovered more, but even in terms of the pound only 12.9 per cent of the loss for the depression had been recovered by 1935. It is true that the greater part of this loss reflects primarily the drop in prices, but even in terms of the actual physical volume the decline has been severe and the recovery paltry. In 1935, although the industrial production of the leading capitalist countries had recovered 57.8 per cent of the loss since 1929, the physical volume of international trade had regained but 18.9 per cent, according to the index of the League of Nations. This index averaged only 79.8 per cent of the 1929 level during the twelve months ended March 1936, against a low point of 72.9 for the year ended June 1933.[34]

The lagging of international trade reflects, of course, the current rampant economic nationalism, expressed in increasingly prohibitive tariffs, arbitrary and unpredictable quotas and complicated exchange restrictions. Pending a greater relaxation of these impediments than is now in sight, it is difficult to foresee a recovery of trade between nations to anything even approaching the pre-depression volume. Whether the reciprocal trade agreement program of Secretary Hull (assuming it survives the November 1936 election) is the precursor of a general relaxation of tariff barriers remains to be seen; unfortunately, the experience of recent years does not inspire much confidence. There are definite limits to purely domestic recovery, even in the most self-contained countries, and in the absence of a corresponding improvement in foreign trade, considerable doubt must persist as to how far internal recovery can go.

For example, as a result of the protectionist policies followed by the "new" countries in expanding their industries, the older industrial nations have found their export markets increasingly restricted. Their recovery has in consequence been centered in industries catering to the home market rather than those dependent on sales abroad. In the United Kingdom, in particular, which is peculiarly dependent on its foreign trade, the home markets are relatively prosperous, while the export trades notoriously languish. The number of British employed in the home industries in 1935 was greater by 864,000 than in 1932; the number in the export industries increased only 315,000. Moreover, although there were 149,000 more employed in British industry and trade as a whole in 1935 than in 1929, the number in the export sector fell by 541,000.[35] The result is that there is prosperity in the south of England, where the home and newer industries are more largely domiciled, while depression still reigns in the distress areas of Wales and the north. Although the problem of the loss of export markets is more acute in the United Kingdom than elsewhere, it is a problem confronting all the "older" industrial countries, and one for which there seems no immediate solution.

EFFECTS OF THE OTTAWA AGREEMENTS

Along with the decreased importance of Europe in international trade, there has been a further drift away from the pre-war world economy toward a number of relatively self-contained economic units. Outstanding, of course, is the British Empire, under the imperial tariff preferences established by the Ottawa agreements in August 1932. It is no mere coincidence that British exports to other countries in the British Empire increased to 44.7 per cent of the total in 1935 from 41.1 in

29. The index in 1923-1925—a commonly accepted base period—was only 64.4 per cent of the 1928 average.

32. Cf. table on p. 136.

34. Computed from League of Nations, *Monthly Bulletin of Statistics*, June 1936, p. 242, and February 1936, p. 51. Owing to its statistical limitations, this index is not to be regarded as in any sense an exact measure of the physical volume of world trade, but only as indicative of the trend. The index is being revised and improved in the forthcoming *Review of World Trade, 1935*, to be issued shortly by the League of Nations.

35. "The Anatomy of Employment," *The Economist* (London), May 16, 1936, p. 353. Tariffs, of course, have been very important in the revival of the home industries.

1931, while the share of exports to Europe dropped to 34.8 from 37.7.[38] Imperial imports rose to 37.6 per cent of the total from 28.7, but imports from Europe decreased to 32.3 per cent from 42.7.

Another economic unit is the French colonial empire, although it does not, of course, even pretend to approach in importance the British Empire. Nevertheless, the depression has materially stimulated the development of trade between the mother country and the various colonies, mandates and protectorates. Imports from French overseas territories rose to 25.2 per cent of all imports into France in 1934 from 20.9 in 1932 and only 12.0 in 1929, while exports, which accounted for 30.9 per cent of the total in 1934 and 31.5 in 1932, were far above the 18.8 per cent of 1929.[41] A Japanese economic bloc seems also to be in the making, paralleling the spread of Japanese political domination in Asia.

READJUSTMENT OF THE PRICE STRUCTURE

Back of the better outlook for industry and agriculture has been the gradual improvement in prices throughout the world. Mention has already been made of the rise of prices in connection with the upward trend in the agricultural and raw material countries. The improvement is a matter of much more, however, than merely higher prices for agricultural and raw material producers.

During the depression some prices, especially those of such primary commodities as hogs, wheat, cotton, silk and rubber, fell 50, 60 and even 80 per cent;[42] others, such as the prices paid by the consumer for his clothes, fell only moderately; while taxes, not to mention the wages of those fortunate enough to be well organized, declined little or not at all, and interest costs, especially for the small borrower, only slowly. Had all fallen together, no one would have been injured, for everyone would have been equally well off. The fact that they varied so as to flexibility, as to responsiveness to altered conditions, as to "stickiness"—to use the current term—was what caused the trouble and resulted in widespread dislocations which contributed materially to the depression in the first place, and then greatly aggravated and prolonged it.[43] What is now happening is not merely an upturn in the prices of primary commodities but, far more important, a return toward a more normal relation between all the various elements of the price structure, both in the individual countries and for the world as a whole.

One of the most important readjustments now taking place is the improvement not merely in the prices received by farmers, but in the relation of these prices to those they pay for the goods they buy.[44] In the United States the ratio of these two groups of prices—i.e., the purchasing power of farmers' products—had declined from 95.7 per cent of the pre-war average in 1928 to 54 in June 1932.[45] During the succeeding months of recovery the rise in retail prices offset in part the increase in the prices received by the farmers. Nevertheless, farmers' prices rose so much more that the ratio during January-May of this year advanced again to 87.1, marking the recovery of 79 per cent of the loss during the depression.

Since taxes, interest charges and similar costs of the farmers shrank little during the depression, the decline in prices received for their products had caused an even greater contraction in their income available for other purposes. Similarly, the improved purchasing power of the farmers' crops has resulted in an even greater increase in the share of their receipts available for general expenditures, to the conspicuous benefit, among others, of industry. It is not the absolute improvement in the farmers' income, important though it is, but the redressing of his position in relation to industry and other economic groups of our national economy which points toward underlying recovery.

A similar trend has been apparent in many other countries, among which are the United Kingdom, Canada, Italy, Germany, Hungary, Norway, Yugoslavia and France, although in several of them artificial price-supporting and import restriction measures have also played a part.[46]

Improvement has also been general in the relation of wholesale prices to the cost of living. Wholesale prices declined much more during the depression than the cost of living, which includes such relatively inflexible items as rents. Wholesale

38. Computed from Bank of England, *Statistical Summary*, February 1934, p. 19, and February 1936, p. 19.

41. League of Nations, *Review of World Trade, 1934* (Geneva, 1935), p. 42.

42. Hogs fell to less than 4 cents a pound in 1932 from around 10 cents in 1929; wheat to 50 cents a bushel from \$1.25; cotton to 5 cents a pound from 18 cents; silk to \$1.25 from \$5.00; and rubber to 2¾ cents from 20 cents.

43. Cf. Gardiner C. Means, *Industrial Prices and their Relative Inflexibility* (U. S. Senate Document No. 13, 74th Congress, 1st Session).

44. League of Nations, *World Production and Prices, 1925-34*, cited, pp. 109 *et seq.*

45. U. S. Department of Agriculture, monthly release of the Bureau of Agricultural Economics, *Average Prices Received by Farmers for Farm Products*.

46. League of Nations, *World Economic Survey, 1934-35*, cited, pp. 56, 57.

prices are more or less indicative of the prices received by manufacturers for their products. Living costs, on the other hand, reflect manufacturers' costs to a considerable degree by setting a "bottom" to the wages that are a prime element in manufacturing expenses.[47] The redressing of the relationship of the two carries with it a return of the prospect of profitable business operations and of confidence as to the future.

In the United States wholesale prices advanced 21.1 per cent from 1933 to 1935, while the cost of living rose but 6.0 per cent.[48] In Canada the rise was 7.4 per cent, as against 2.3; in the United Kingdom 3.7, as against 2.1; in Germany 9.1, as against 4.4. It is true that in Japan wholesale prices have risen only 3.4 per cent, as against an increase of 7.3 in the cost of living, but the Japanese wholesale price index is dominated by silk prices, which have suffered badly from rayon competition,[49] while industrial expansion has been assured by a depreciated yen and heavy government expenditures. In the three surviving gold bloc countries, however, both wholesale prices and the cost of living have continued to decline, wholesale prices in France dropping 15.1 per cent from 1933 to 1935, as against only 10.1 per cent for living costs.

While these and other price dislocations have been undergoing gradual correction within the various countries, the same process has been under way between nations. In particular, the terms of trade between the agricultural and industrial countries have been improving, as would be expected from the change for the better in the position of the farmer generally. It is also apparent in the rise of export prices relative to import prices in such countries as India and the Dutch East Indies, which export agricultural and import manufactured products.

Not all the consequences of the restoration of price equilibria are foreseeable. For instance, in the opinion of some observers, the British building boom, which has been an important element in British recovery, was itself largely due to the great drop in the prices of the necessities, especially food and clothing, during the depression, which freed income for other purposes:[51] to that extent, British recovery has depended on the farmers' misfortune. What the effect on recovery will be of a rise in food prices is a question of some moment for Britain.[52]

The intensification of the price dislocations as the depression deepened led to widespread efforts to find ways of relieving the strain. Attempts were made to curtail the output of individual commodities; of these the only ones at all successful commonly involved commodities the production of which was controlled by a very few countries, such as the present tin and rubber schemes. Possibilities in this direction proved fairly limited.

CURRENCY DEPRECIATION

In the end, currency depreciation was the tool most generally used. Some countries, such as Australia, whose foreign trade balances had been vitally affected, used it as a means primarily for redressing a dislocation of their relations with other nations. Others, like the United States and the United Kingdom, whose gold reserves were ample, used it to meet an internal dislocation which seemed to be threatening the submergence of agriculture in the former, and of industry in the latter country.[53] In most cases currency depreciation took the form of simply permitting the foreign value of the currency to decline, without attempting to check it by gold exports, and without setting a new gold parity; Britain is the best-known example. In Belgium and Czechoslovakia currency depreciation was consummated overnight in the form of an outright devaluation to a new gold parity. The United States finally devalued officially, after having forced the depreciation of its currency over a period of nearly a year.

On the whole, currency depreciation effected its purpose. Primary commodity prices, largely established in world markets and therefore directly responsive to changes in the exchange rate, rose much more than the relatively "sticky" local retail prices. Selling prices of manufactured goods, especially those actively entering into export trade or subject to competition from imported products, rose in relation to fixed and labor costs. In the agricultural countries, higher prices checked imports, while exports, commanding a larger return than

47. Sir Henry Strakosch, "The Road to Recovery," *The Economist*, supplement, January 5, 1935, p. 7.

48. Percentages for the United States and other countries, computed from League of Nations, *Monthly Bulletin of Statistics*, June 1936, pp. 266-69.

49. Cf. Winthrop W. Case, "Rising Use of Rayon Hurts Japanese Silk Markets: Trade Balance Affected," *The Annalist*, March 9, 1934, p. 405.

51. *The Economist*, October 26, 1935, p. 796.

52. *The Statist* (London), May 23, 1936, p. 854.

53. In the United States low prices for farm products, in the face of unchanged taxes and interest charges and high costs generally, had led in 1932 to widespread foreclosures and extensive social unrest, while in the United Kingdom the difficulty experienced in deflating both fixed and labor costs after the stabilization of the pound accounted for much of the chronic depression in the years prior to 1929.

before in terms of the depreciated currency, were stimulated, thereby making possible a restoration of foreign payments, and a rebuilding of foreign balances.

The internal and external consequences of depreciation varied greatly. In the less important countries the effect was largely internal, domestic prices rising without much affecting prices outside their borders. In more important countries, however, especially such as the United Kingdom and the United States, which dominate world markets to a considerable extent, domestic prices were indeed raised, but prices elsewhere were at the same time depressed. In the United States, for example, the devaluation of the dollar should in theory have been accompanied by a proportionate increase in the price of silk in terms of dollars. Rayon prices, being a purely domestic matter, were increased only moderately as a result of devaluation, however, and rayon competition accordingly held silk prices in this country down to nearly the pre-devaluation level. The consequence was to depress silk prices further in Japan in terms of the yen, and in the end to stimulate the further depreciation of the Japanese currency in the second half of 1933.[54]

The effect of the currency depreciation of the sterling bloc in 1931 is especially apparent in the suddenly accentuated drop of wholesale prices in terms of gold, shown on the chart. Not only did prices in the sterling bloc decline when measured in gold, but the concurrent weakness in the United States, Germany, France, Belgium, etc., showed the international repercussions of the move.

France, Switzerland and the Netherlands are the only countries freely maintaining today the pre-depression value of their currency. Because of the doubt surrounding their future, they have become centers of uncertainty rather than of the confidence and security which the gold standard used to signify. If the much predicted devaluation occurs, it is probable that, after the first adverse effects, prices in general will suffer little, since the current upward trend of consumption, the gradual readjustment of commodity output, and the vast unused supplies of credit and gold in many countries point to rising rather than falling prices for the future.

EXCHANGE CONTROL

A substitute for currency depreciation is exchange control, under which funds may be transferred abroad only under government permit. Instituted in most cases in an effort to check the drain of gold reserves to other countries, it has usually resulted in the insulation of domestic prices from prices abroad. Germany is the outstanding example, with a currency maintained at a nominal par within its borders at the cost of an external depreciation which, for some classes of German marks, had by the end of March 1935 reached 69 per cent.[55] Italy and many of the countries of Central Europe and Latin America have also adopted this policy.

Although exchange control in certain respects resembles currency depreciation, its consequences are different. Currency depreciation has the virtue of facilitating re-establishment of the country's foreign commercial and financial relations on a sounder and more tenable level, thereby contributing to general stability and recovery. Exchange control, on the contrary, tends to perpetuate the existing maladjustments, and to lead to increasingly stringent measures of control, which are likely to result eventually, as in Germany and Italy, in considerable internal regimentation as well. If imports of raw materials, for instance, are permitted only with government authorization, their regulation will logically tend to spread also to the industries using them.

The ramifications of exchange control and its usual sequel of exchange clearing agreements are too extensive for detailed discussion here.[56] Their effects, generally, are to stifle international trade, depress prices and reduce consumption. Moreover, one of their most important objectives—the liquidating of debts owed abroad, for the payment of which foreign exchange is lacking—is rarely attained except in part, while the result is often the creation of new commercial debts instead.

FUTURE OF THE INTERNATIONAL GOLD STANDARD

The future of the international gold standard remains obscure. Before the war it served, in a world still largely devoted to *laissez-faire* economic principles, to maintain equilibrium between the price levels of the different countries of the world, thus uniting them into one organic economic whole. For its successful operation, however, there are generally considered to be at least four prerequisites:[57]

54. Case, "The Rising Use of Rayon," cited.

55. League of Nations, *Commercial Banks, 1929-1934* (Geneva, 1935), p. lxx.

56. League of Nations, *Enquiry into Clearing Agreements*, Geneva, April 3, 1935, C.153.M.83.1935.II.B.

57. For fuller discussion, cf. "Stabilization of Currencies," Barclays Bank, *Monthly Review* (London), March 1935, p. 5.

1. Reasonable freedom of international trade.

2. The willingness of each country and its central bank to permit international gold movements to have their natural effects on its credit structure, and through it on the economy as a whole.

3. Restoration of economic equilibrium within each country (including government finances).

4. Solution of the war debts and reparations problems.

It is true that the war debts have practically ceased to be a factor, and that the restoration of internal equilibrium will probably follow with increasing recovery. On the other hand, he is indeed an optimist who can discover prospects in the near future for the free and unhampered movement of international trade through the thoroughgoing abandonment of prevailing nationalist and protectionist policies. And he is no less an optimist who believes that Great Britain, for example, would sacrifice home business in the interests of an ideal gold standard, by raising the bank rate in the orthodox manner in order to check an outflow of gold caused by too high a domestic price level. Yet until freedom of trade is in some measure restored and until the bank rate is again used to maintain international rather than domestic equilibrium, the destructive movements and concentrations of the world's gold supply will persist and will continue to jeopardize efforts to resurrect the old gold standard.

More likely, if the present recovery continues and if the international political situation does not grow worse, the world will see the gradual extension of the exchange stability already existing in the sterling bloc[58] and in the United States, by means of *de facto* stabilization which will not preclude further exchange readjustments.

Increasing rearmament and the growing fears of war also remain a real obstacle to healthy recovery and the full restoration of confidence. While government expenditures for military purposes have undoubtedly stimulated both industry and commodity prices, their importance in the current improvement, although steadily increasing, is probably somewhat exaggerated, except in Germany, Italy and Japan. The unsettled international political situation, however, is a serious deterrent to the resumption of foreign lending and long-term commitments of all sorts, although in other respects conditions have improved enough for a country like Britain to contemplate a limited resumption of lending abroad.[59] The burden of rearmament, moreover, is increasing rapidly in countries other than Germany, Italy and Japan; even in the United Kingdom military expenditures in another two years will consume nearly 6 per cent of the national income, as against 4½ per cent in 1936.[60] However they may be financed, such expenditures can be paid for in the end only by a lowered standard of living throughout the world.

ECONOMIC NATIONALISM

More far-reaching, perhaps, in its implications, is the spread of economic nationalism. The turning of industrial Europe to agricultural protectionism in the post-war years, already noted, carried with it the corollary of industrial development in the agricultural and raw material countries which, once their European markets had been curtailed, were less willing or less able to buy their manufactured goods from Europe.[61]

Part of the development, it is true, is by no means "artificial," but the direct consequence of the spread of the technical grasp of the machine process, as a result of which the simpler types of industrial activity can be economically transplanted to less developed countries. To the extent that this is true, the trend is simply toward the greater diffusion of industry, in itself by no means an undesirable development.

Much of the expansion, not only in the "new" industrial countries but also in Britain and elsewhere, however, is not the result of the development of new needs, but merely the monopolizing by home industries of domestic markets formerly supplied by foreign countries. One consequence is the partial wiping out of the export industries of "older" countries formerly supplying these markets, of which the British textile industry is a notorious example. Another result is the building up of new vested interests which will make tariff reductions extremely difficult even when the emergency of the depression is long past. In so far as such expansion is a sort of hothouse flower developing in the shelter of highly artificial measures, such as prohibitive tariffs, subsidies and the like, it means a sacrifice of all the advantages of the international specialization and division of labor. Like rearmament, it can only result in a lowered world standard of living.

58. Stability in the sterling bloc currently exists both as between members, and in terms of gold for the group as a whole.

59. *The Economist*, June 27, 1936, p. 736.

60. *The Economist*, May 30, 1936, p. 473.

61. Cf. p. 136, and League of Nations, *Considerations on the Present Evolution of Agricultural Protectionism* (Geneva, 1935).